

# Debt Dashboard

## Q1 2007

### LOW INCOME MORTGAGORS “MOST AT RISK”

Homeowners on low incomes<sup>1</sup> are facing increasing pressure and are most at risk in meeting their unsecured debts, according to the latest dashboard from leading debt charity, Consumer Credit Counselling Service (CCCS).

The dashboard shows that both the base rate and unemployment indices are higher than at any point since 2001. This accounts for some of the pressures that have led to recent changes in the demographics of people seeking help from CCCS.

But, while growth in outstanding unsecured debt across the nation as a whole stagnated in 2006 - rising less than one percent, the average outstanding unsecured debt of low income homeowners counselled by CCCS in the same period rose by over 50 percent. In 2005 the debt averaged £23,000; in 2006 it averaged £36,000.

Table 1- average unsecured debts of homeowners clients counselled by CCCS

	2004	2005	2006
Below low income threshold	£20,511	£22,998	£35,719
Above low income threshold	£36,862	£40,338	£40,194

According to CCCS statistics low income clients now account for a disproportionate percentage of those seeking debt advice. Figures from the Department for Work and Pensions show that between 2004 and 2006, 18 percent of the population was living in a household with income below the low-income threshold<sup>2</sup>. In 2004 and 2005 the proportion of CCCS clients counselled who were below the threshold closely

<sup>1</sup> For the purposes of this report, “low income” is defined by the DWP criteria of an income that is below the threshold of 60 percent of the national median income. This threshold is £201 per week for 2004, £210 per week for 2005 and £217 per week for 2006. See ‘Households Below Average Income’ (HBAI) publications <http://www.dwp.gov.uk/asd/hbai.asp#hbai>

<sup>2</sup> HBAI Statistics First Release, March 27, 2007 (ONS)

matched this. However in 2006 the proportion of those counselled who were on low incomes doubled to 35 percent.

*Table 2 – proportions of CCCS and UK populations with income beneath the low-income threshold*

	2004	2005	2006
CCCS clients counselled	19%	18%	35%
UK population	18%	17%	18%

This rise was almost entirely the result of more low-income people with mortgages seeking help with their unsecured debts. In 2005, only one in seven people on low incomes counselled by CCCS had mortgages; in 2006 it was almost one in two.

Many unsecured lenders have been generous to homeowners in recent years, and a deluge of day-time television advertising has encouraged people to handle debt problems by consolidating their unsecured credit into secured loans. As available equity to back such loans diminishes, households will find that their options are considerably impacted. According to CCCS, taking out additional credit to deal with debt problems is rarely an effective solution.

CCCS Chairman Malcolm Hurlston said, “In our last Dashboard we warned that homeowners were being put on the rack. This latest research shows that the effects are already being felt by the most vulnerable. Low income-homeowners are at risk of suffering the fate of the miner’s canary – becoming the first to succumb when the situation turns sour.

“I am writing to the Council of Mortgage Lenders to see how we can deepen our collaboration.

“Although mortgage payments and other priority debts should always be prioritised when finances are tight, many people on low incomes are leaving it longer to seek independent help or advice about their unsecured debts. By the time they contact us their situation is on the brink.”

**-ends-**

The unemployment and base rates indices are both at their highest point since 2001

Homeowners on low incomes may struggle to afford the fees required to fix their interest rates, especially if pressured by a high level of unsecured debt.

Interest rate rises will have an immediate impact on these households.

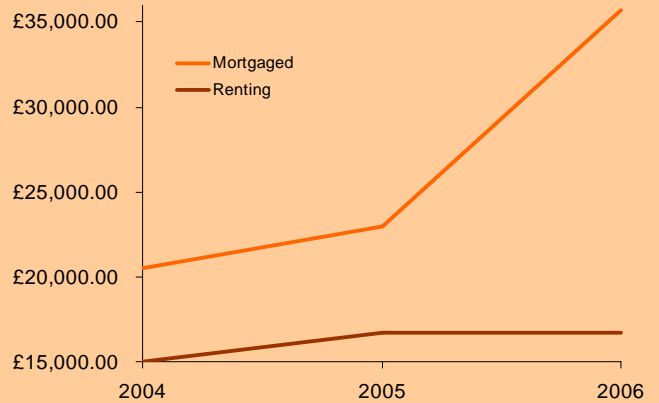
Unemployment and interest rates are rising



The rate of increase in average outstanding unsecured debt of low-income CCCS clients counselled accelerated significantly in 2006 for those with mortgages.

In contrast the average for those who were renting diminished slightly over the same period.

Average unsecured debt of renting and mortgaged low-income CCCS clients diverged in 2006

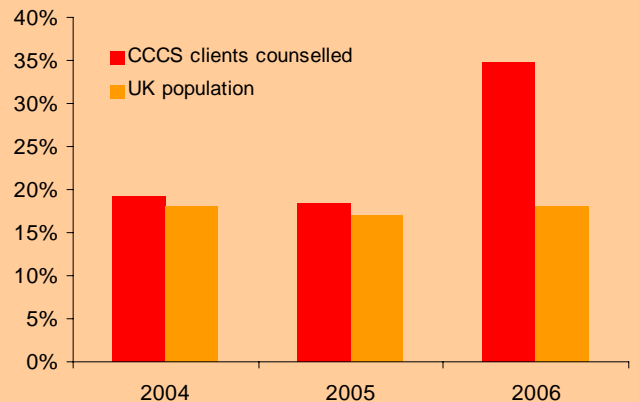


The proportion of CCCS clients counselled who have incomes beneath the low income threshold increased significantly in 2006

The proportion of UK households with incomes beneath the low income threshold remained static during the same period

The low income threshold is net income below 60 percent of the national median wage.

CCCS counselled a disproportionate number of low income households in 2006



Debt Dashboard data – Q1 2007

	Index of average DMP debt (Jan 1999 = 100)	Tax and Price Index (Jan 1999 = 100)	Index of ILO Unemployment rate (Jan 1999 = 100)	Repayment difficulty index (Jan 1999 = 100)	Base rate	Index of average earnings (Jan 1999 = 100)	Index of average UK unsecured debt (Jan 1999 = 100)
2001 Q1	119.1	104.6	82.3	74.2	5.75%	114.5	127.7
2002 Q1	125.3	104.4	82.8	69.8	4.00%	117.8	143.3
2003 Q1	131.8	107.8	82.3	76.0	3.75%	122.0	157.5
2004 Q1	136.0	111.4	77.4	75.6	4.00%	128.5	171.6
2005 Q1	147.0	114.9	76.3	83.6	4.75%	134.7	188.9
2006 Q1	162.5	117.4	83.9	65.8	4.50%	140.5	198.0
2007 Q1	167.8	122.7	88.7	58.2	5.25%	143.5(p)	199.0

Data from the ONS for the index of average earnings is unavailable for February and March at present, so the value for Q1 2007 refers to January only

## Notes on Debt Dashboard:

1. *Debt Dashboard* is produced quarterly and based on data from some 73,000 people spread throughout the United Kingdom. It juxtaposes clients' levels of debts and ability to repay with broader economic variables.
2. 'CCCS clients' in this press release are people who have received a full, in-depth counselling session from the charity.

A total of seven variables are covered:

- **Repayment difficulty index**  
The repayment difficulty index reflects problems reported by people on repayment plans. These plans are based on affordable payments agreed with creditors.
- **Index of average DMP debt**  
This refers to the average level of unsecured debt being paid back by DMP clients (i.e. original debt) at any time. Because the aggregate is made up of DMPs established at various times, it is not possible to weight the data for inflation. The debt does not include mortgages or other secured sources of credit. These are defined as priorities by CCCS and are taken into account in deciding an affordable monthly repayment plan.
- **Tax and price index**  
The tax and price index (TPI) takes into account taxes and prices in calculating the RPI basket of goods. This means that it is a truer indication of disposable income. More information can be found on the TPI index at the Office of National Statistics, which releases the figures monthly, quarterly and annually. We have adjusted the figures with January 1999 as the base.
- **Index of ILO unemployment rate**
- **Index of average earnings**
- **Index of average unsecured debt in the UK**
- **Base rate**

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